

**COMPTROLLER GENERAL DAVID M. WALKER  
REMARKS AT THE RELEASE OF GAO'S 2005 HIGH RISK UPDATE  
JANUARY 25, 2005**

Welcome and thank you for coming. A special thank you goes to Chairmen Collins, Davis and Voinovich and Ranking Minority Members Lieberman, Waxman and Akaka for taking time out of their busy schedules to be here today.

Their presence serves as a testament to the growing importance of GAO's work to the Congress and the country. My assignment this morning is to provide you with an executive summary of GAO's 2005 High Risk update.

As many of you know, GAO began issuing its High Risk List in 1990 under the leadership of my predecessor, Chuck Bowsher. GAO began bi-annual updates of the list in 1993. In the early years GAO's High Risk List focused more on areas that were subject to increased risk of fraud, waste, abuse or mismanagement. In addition, the list focused on actions required by the Executive Branch to address the applicable high-risk areas.

In recent years and under my tenure as Comptroller General of the United States, GAO has added a number of key transformation issues that present a range of economy, efficiency, effectiveness and accountability challenges. In addition, the High Risk List now includes items that may require action by both the Congress and the Executive Branch in order to achieve success.

The purpose of GAO's High Risk list is to bring light to areas that need special attention. History has shown that with light comes heat and with heat comes action. And action is what it will take to get the real and sustainable results necessary to have an item removed from our High Risk list.

GAO's 2005 High Risk List update involves good news, bad news and an emerging challenge.

On the good news front, some progress was made on every high-risk area although the degree of progress ranged widely.

**HIGH RISK LIST CHANGES AND CHALLENGES:**

Three high-risk areas are being removed from GAO's list. They are: 1) Student Financial Aid Programs; 2) FAA Financial Management, and 3) Forest Service Financial Management.

Removal from GAO's High Risk list does not mean that things are perfect in these areas. Rather it means that enough actions have been taken to demonstrate to GAO that the agencies are both committed and on a sustainable path to effectively address the related challenges.

Congratulations go to the Departments of Education, Transportation and Agriculture and the respective agencies.

On the other side of the ledger, we added four new areas to this year's list:

- **INFORMATION SHARING** - Recent events and changes in the overall security environment have served to re-enforce the importance of having appropriate and effective information and knowledge sharing mechanisms in place that cross organizational, geographic and sectoral boundaries. Progress has been made since the tragic events of 9/11 but much remains to be done. Achieving success in this area will involve the combined efforts of many agencies in the federal government and as well as a range of other key players.
- **DOD BUSINESS TRANSFORMATION** - Our military capabilities are unparalleled in today's world. At the same time, achieving national security in today's challenging and rapidly changing times requires a lot more than military might. In addition, DOD transformation must address both our military capabilities and a range of long standing key business challenges in order to be successful and sustainable. This includes changes in DOD's business policies, processes and systems as well as its organizational alignment, culture and accountability mechanisms.

The fact is that, with the publication of this year's list, DOD has eight high-risk areas on it's own in addition to sharing the six government-wide high-risk areas. That means that DOD alone involves 14 or 25 high-risk areas. This is unacceptable and should not be tolerated.

While DOD's leadership team is committed to addressing these challenges and some progress has been made, we are convinced that DOD will not be successful unless its fundamental approach to its overall business transformation effort is changed. This includes having a high level executive with a proven track record of success being given full-time responsibility and accountability for the overall business transformation process, including effective control over related resources. Other changes are critical but this one is now essential.

The failure to effectively address these many high-risk areas within DOD results in billions of dollars of waste each year and inadequate accountability to the Congress and the American people.

- **DOD PERSONNEL SECURITY** – Increased delays and growing backlogs of security clearances for DOD personnel, contractors and others presents a range of risks in today's security environment. While the Administration has announced it's intention to transfer this function to OPM, only time will tell if this will change get the job done.
- **MANAGEMENT OF INTERAGENCY CONTRACTING** - Recent acquisition reforms have served to improve the timeliness and achieve certain economies

of scale in connection with certain government contracting activities. At the same time, certain reforms are proving to have some unintended consequences. This is the case in connection with the need to enhance management and oversight activities in connection with the rapidly growing area of interagency contracting, especially in connection with the contracting for services. This is a government-wide challenge that will require action by a variety of parties.

We have merged four previous IRS areas into two:

- **ENFORCEMENT OF TAX LAWS** - First, the previous Earned Income Tax Credit and Unpaid Taxes areas have been merged into a new and broader Enforcement of Tax Laws area. The two previous areas continue to be a problem but the real high-risk challenge is much more strategic and broad-based. Namely, the tax-gap appears to be widening and more time and attention needs to be focused on enforcement in order to protect the Treasury, assure taxpayer equity and maintain the credibility of our tax administration system. While broader tax reform is on the agenda in Washington, it involves a policy debate and this high-risk area relates to the administration of our existing tax laws.
- **IRS BUSINESS SYSTEMS MODERINIZATION** - Second, the IRS Financial Management has been merged into the IRS Business Systems Modernization area. IRS has made significant progress in the financial management area and the major challenges that remain relate to the need to effectively design and administer new systems of internal controls and information processing.
- **EMERGING AREA**- Finally, while not yet being designated as a high-risk area, based on GAO's work one emerging area deserves some special recognition at this time. That area has to do with the need to take a more strategic, comprehensive, systematic and integrated approach to threat and risk assessments by the federal government. This is particularly important in connection with DOD and DHS but this concept also applies to other areas of government operations. This area will prove to be of increasing importance as we face a period of increasing budgetary constraints.

#### SUMMARY LISTING OF ALL 2005 HIGH RISK AREAS:

This chart summaries the 2005 High Risk List and notes the year that each item was added. There is one subsequent event that I would like to point out, the PBGC recently revised the estimate of its greatest exposure to underfunded plans from \$35 billion to \$96 billion. This is a huge increase in one year and serves to re-enforce our high-risk designation as well as the need for action by both the PBGC and the Congress.

#### THREE MAJOR CATEGORIES OF HIGH RISK AREAS:

As this chart shows, the 25 current high-risk areas can be assigned to three broad categories. Six relate to government-wide transformation challenges, twelve relate to agency transformations and seven relate to specific program areas. Of the 25, 14 relate to DOD and nine are likely to require some action by the Congress as well as actions by the Executive Branch.

#### CHANGES OVER THE YEARS:

This chart shows that since the inception of GAO's list in 1990 we have added 29 items, and removed or consolidated 18 items. It shows that progress has been made, and yet the list has grown over time.

#### COMPOSITION OF FEDERAL SPENDING:

This chart shows how the composition of federal spending has changed over the past 40 years. A significant percentage of the federal budget has been reallocated from defense to Social Security, Medicare and Medicaid over the past 40 years. In addition, about 2/3 of the federal budget is now on autopilot and this percentage is increasing. These trends are unsustainable.

#### FISCAL EXPOSURES:

Based on the federal government's annual report for fiscal 2004, the federal government now has total liabilities and unfunded commitments in excess of \$43 trillion. That is up over \$13 trillion in one year of which about \$8 trillion relates to the new Medicare prescription drug bill. This amounts to a burden of about \$350,000 per full time worker and it's growing every day.

#### LONG-RANGE BUDGET SIMULATION:

According to GAO's latest long-range budget simulations, we are facing large and growing long-range budget deficits due to a variety of factors, including known demographic trends, rising health care costs and reduced revenues as a percent of GDP. This gap has worsened significantly during the past two years and must be addressed. It is clear that while additional economic growth can help, there is no way that we will grow our way out of this problem. Tough choices will be required by elected officials in connection with both spending and tax policy.

It seems clear that a fundamental review and reexamination of the base of existing federal programs, policies, functions and activities will be required. In this regard, GAO will publish a new and unprecedented 21<sup>st</sup> Century Challenges report in the middle of February that will be designed to assist the Congress in engaging in this much need and long-overdue re-examination effort. You will not want to miss the unveiling of that publication.